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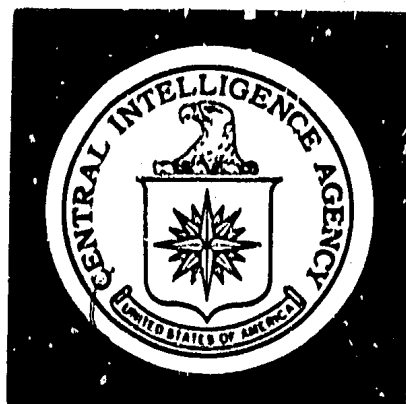
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DIRECTORATE OF
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Intelligence Memorandum

Economic Background Of The Polish Riots

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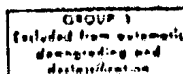
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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
December 1970

INTELLIGENCE MEMORANDUM**Economic Background Of The Polish Riots****Introduction**

The Gomulka regime, which came to power in Poland in October 1956 in the wake of the Poznan bread riots, did much to improve the living conditions of workers and to advance the national interests of Poland. Nevertheless, Gomulka was forced to step down in December 1970 after new riots by workers in response to sharp price increases for necessities. How did the regime happen to adopt such an unpopular measure and to announce it just before Christmas? What lay behind the violent response of the workers? What choices in dealing with the workers has the new Giersek regime? This memorandum proposes answers to these questions out of the recent economic and political history of Poland.

Eight Days in December

1. The riots came in the wake of a resolution adopted by the Council of Minister's on Saturday, 12 December that called for sweeping revisions in the retail price structure, to take effect the next day. On the following Monday, in protest against the price hikes, an open demonstration erupted among 1,000 or so shipyard workers in the city of Gdansk on the Baltic. Riots continued, with angry

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housewives joining in, and quickly spread to the northern cities of Gdynia, Sopot, and Szczecin; lesser disturbances were reported to the south in Lodz and Bydgoszcz, and scattered work stoppage occurred in several cities, including Warsaw. Polish accounts on 17 December list at least 12 dead and several hundred injured, including security police and militiamen. Daily production losses of 25 million zlotys in the Gdansk shipyards were reported.

2. The Gomulka regime throughout the week held out no hope of a rollback in prices, although the former Party boss of Gdansk Province reportedly promised the Gdansk shipyard workers pay increases in 1971. Instead, the regime strongly defended its action as economically vital and proceeded to quell the riots with armed force.

3. This inflexible position helped maintain tension in major Polish cities and in turn led to the downfall of Party Secretary Wladyslaw Gomulka. On Sunday, 20 December the Polish radio suddenly announced that Gomulka would retire because of bad health. Four of his political allies also were forced out of office, including Zenon Kliszko, the Party's leading theoretician, and Boleslaw Jaszczuk, Gomulka's economic adviser and a leading apologist for his economic policies. Gomulka was succeeded as Party first secretary by Edward Gierek, tough, efficient former Party boss of heavily industrialized Katowice Province, a member of the policymaking Politburo who had long waited in the wings. He took office along with four newly named members of the Politburo, Poland's twelve-member policymaking body.

The Price Revisions

4. The Council of Ministers resolution of 12 December prescribed sharp price hikes for two major categories of consumer goods, food and fuels, but also for building materials and cotton and textiles, together with substantial reductions in prices for many industrial consumer goods and some adjustments in family allowances. According to official claims these measures on balance would mean only a temporary 2% loss in real income, even for the poorest workers, who would be the hardest hit. But for most workers, that was not the point; they were not interested in acquiring more clothes and durables if they could not also maintain and increase meat consumption.

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5. For the increase in the price of meats had the greatest impact on workers' attitudes. Meat prices, including pork and beef, rose by about 18%. This increase about equalled the last major change in meat prices, a rise of 17% in November 1967. Other recent price increases -- in the price of alcohol last spring (called both to conserve potato stocks for livestock feed and to curb excessive drinking) and in tobacco products in 1966-67 -- also touched closely on items of special interest to workers and their families.

6. As shown in Table 1, other basic foodstuffs affected by the 12 December price hike included lard, flour (wheat and rye), milk and milk products, fish and fish products, and cakes and baked goods. The price hikes for cakes and baked goods, up 12%, coupled with increases for some sweets, coffee, jams, marmalade, fruit, and cheeses were particularly galling in the pre-holiday season.

7. The resolution also provided for a 10% rise in hard coal prices -- only a year after one of the most severe winters in modern Polish history, with the possibility of an equally severe one coming up -- and a 14% price rise in lignite (brown coal). Lignite, although less efficient than anthracite, is a favorite house fuel among lower income groups because of its cheaper price. Building materials jumped an average of 28% and include such popular items as bricks, ceramic tiles, and sawn timber. The price of cotton textiles, for which Poland depends largely on imports, also increased significantly. Cotton textile prices increased 15%; natural silk, 37%; and linen fabric, 54%.

8. The cumulative effects of the foregoing increases for foodstuffs, fuels, building materials, and textiles far surpass the benefits received from simultaneously decreed price cuts in other goods and from other adjustments offered by the regime. The most important price reductions were for pharmaceutical products, down 31%; synthetic textiles, down 25%; and consumer durables, mainly popular household appliances. The retail prices of TV sets, radios, refrigerators, washing machines, sewing machines, and tape recorders were shaved by

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Table 1

Poland: Major Revisions in Retail Prices
and Estimated Shares of Retail Trade a/

	Price Change December 1970 (Percent Increases)	Share of Retail Trade 1969 (Percent)
<u>Price increases</u>		
Foodstuffs		<u>24.3</u>
Flour, macaroni	16	1.4
Baked goods	12	3.6
Meat and meat products	18	9.7
Lard	33	1.0
Fish and fish products	12	1.0
Milk (winter price)	8	1.0 <u>b/</u>
Milk products	4	2.3 <u>b/</u>
Of which:		
Cheese	37	0.5 <u>b/</u>
Sweets and cubed sugar	14	4.0 <u>c/</u>
Coffee	92	0.7
Cotton textiles	15	1.3
Silk fabrics	37	0.5
Linen fabrics	54	N.A.
Overcoats	69	N.A.
Leather gloves	14	N.A.
Steel and metal goods	7-12	1.2
Bicycles and motorbikes	12	N.A.
Coal and lignite	10-14	2.8 <u>d/</u>
Building materials	28	2.0
Minimum total		32.1

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Table 1

Poland: Major Revisions in Retail Prices
and Estimated Shares of Retail Trade a/
(Continued)

	Price Change December 1970 <u>(Percent Increases)</u>	Share of Retail Trade 1969 <u>(Percent)</u>
<u>Price decreases</u>		
Drugs	-31	2.4
Radios, TVs, tape recorders	-13 to -21	1.8
Appliances	N.A.	1.3
Refrigerators	-16	N.A.
Washing machines	-17	N.A.
Vacuum cleaners	-15	N.A.
Sewing machines	-10	N.A.
Synthetic textiles	-25	1.3 <u>e/</u>
Nylon stockings	-46	N.A.
Shirts and blouses	-16	N.A.
Razor blades	-38	N.A.
Phonograph records	-18	N.A.
Matches	-20	N.A.
Paints and lacquers	-10	N.A.
Minimum total		6.8

- a. Many price changes affect items or groups of items, not whole categories of goods, and are excluded from this table. Estimates of the shares of retail trade reflect data from 1968, from Poland's statistical yearbook for 1970, p. 331-332. These data include sales to institutions as well as sales to individuals.
- b. Estimated by applying the shares of the various milk products given in household budget studies to the figure for milk, milk products, and eggs given in the retail trade data.
- c. Including all sugar and sweets.
- d. Including oil for heating and lighting.
- e. Assumed to represent the unitemized residual in the category of textile fabrics.

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significant margins -- from 10% for sewing machines to 21% for tape recorders. Price cuts also affected various other goods, much less important in the budget of the average worker, such as matches, soaps and detergents, phonograph records, paints and lacquers, and Polish-made razor blades.

9. In the official explanation of the price revisions, it was conceded that, with the retail trade structure of 1970, the resulting increase in expenditures would amount to 15.7 billion zlotys, whereas the reduction would cut expenditures by only 10.9 billion zlotys. But these changes represent only a 34% increase in expenditures in retail trade and a 24% reduction in expenditures -- that is, they would involve on the average less than a 1% price rise in net cost of retail trade purchases and less than a 1% increase in the cost of living.

10. The government sweetened the kitty for consumers somewhat by easing credit restrictions on installment purchases of some durables and by cutting back monthly subscription fees on TV sets from 40 zlotys to 30 zlotys.

Revised Incentives in the Shipbuilding Industry

11. A twin cause of the disturbances, one that may explain the coincidence of the most severe disruptions in Poland's shipyard cities of Gdansk, Gdynia, and Szczecin, is a new system of material incentives proposed for the Polish shipbuilding industry. Promulgated by the Council of Ministers as Order No. 80/70 on 31 October, the revised incentives are scheduled to take effect on 1 January 1971.

12. The proposed scheme of incentives, never before tried in Polish industry, aims to tie workers' bonuses by means of complicated formulas to the "profitability" of final output. About 80% of Polish ships to be produced in the upcoming five-year plan have been targeted for sales abroad, and apparently the sales prices received from foreign buyers for Polish-made ships will determine whether the workers in production units gain or lose, and by how much. The uncertainty of such

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rewards by all accounts has caused widespread concern among the rank and file, who have become accustomed to viewing bonuses more as a matter of right than as something to be earned.

13. Shipyard workers have much to lose. Their wages average 30% higher than those of industrial workers in general and have been increasing more rapidly. They object to having their bonuses depend heavily on factors outside the control of individual workers and brigades, such as international market conditions for ships, on the imagination of architects and engineers in the country's maritime design offices, and on the salesmanship of Polish exporters. Polish shipbuilding in the past has not met world standards, except for some colliers, fishing trawlers, and small-size general cargo ships. Most have been saleable only in the Communist world and then only through price concessions. Part of the fault lies in the still primitive sales and service organization of Polish industry

14. As every shipyard worker must surmise, even higher profit margins could mean lower bonuses. It is a widely held belief in Polish blue collar circles that wage and incentive reforms generally favor bureaucrats and white collar workers, who make up about one-fourth of the 37,000 employees in the shipbuilding industry. Hence, some workers doubtlessly fear that any new scheme of income distribution could work to their disadvantage, notwithstanding official claims from Warsaw that existing differences between white and blue collar workers are to be narrowed in the 1971-75 plan.

15. Part of the reason for the uneasiness of the shipyard workers may have come from the failure of the Gomulka regime to explain the proposed reforms properly. In a speech made in mid-November, the Secretary of the PZPR Voivodship Committee, Wlodzimierz Stazewski, said*:

In connection with the repeated working out of this system and the amendments introduced into it, there has been no

* *Glos Wybrzeza*, No. 275, 19 November 1970.

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possibility yet to get the personnel thoroughly acquainted with its principles. Therefore, certain things are unclear in people's minds and some enterprises are anxious about what this new system will bring. These obscurities and anxieties should be dispelled as soon as possible by a matter-of-fact and lucid explanation of the basic principles to come into force in the shipbuilding industry and by the explanation of their economic and social contents.

The Rationale of the Price Changes

16. The price changes introduced in December 1970 and others made since 1967 reflect a long-standing recommendation of the planners to discourage increases in the consumption of heavily subsidized goods and services -- especially goods incorporating agricultural products or imports -- and to encourage expanded consumption of industrial products, which have been greatly overpriced. This view was reflected as early as August 1968 in an article by Grzegorz Pisarski, editor of *Zycie gospodarcze*, Poland's economic newspaper.* He noted, for example, that "securing equal growth in food production requires two to three times higher expenditures than growth in the production of clothes, shoes, and metal, chemical, and rubber products." He acknowledged that some low income groups were still not well fed and that an improvement in quality and an increase in processing were still needed. He recommended, first, a greater differentiation of food prices to reflect demand and, second, a shift of effective demand toward non-food articles by price changes and by increasing the supply and range of good quality clothing, electrical and electronic equipment, and automobiles and other transportation equipment. In general, he observed, food consumption was already high: "compared to countries with a higher national income per capita, food consumption in our country is maintained at a definitely higher level," while the supply of non-food products was relatively low. He went on to note that any general shift in prices would perhaps benefit the well-to-do and would at

* *Zycie gospodarcze*, 11 August 1968.

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least have little effect on their standard of living, while involving a loss for poor families. "This," he said, "is one of the most important reasons why we have delayed changes in the price structure postulated long ago." And he went on to discuss various ways of minimizing these effects.

17. As Pisarski claimed, working class families in Poland eat as much -- in quantity -- as working class families in many West European countries. In quality and range of choice, Polish food on the whole is inferior. Moreover, Polish housewives must spend more time shopping for food and preparing it than housewives in Western Europe, and many more of them must hold down jobs to make ends meet. In addition, many heads of households work at two jobs; moonlighting probably is more common in Poland than anywhere else in the world. But working class families in Poland eat large amounts not only of bread and potatoes but also of milk, meat, fish, butter, and other fats and vegetables -- more, for example, than working class families in West Germany, and nearly as much of several other foods, as shown in Table 2. Shipyard workers probably eat even more. The relatively high demand for food by Polish workers is in good part explained by the larger number of working members in the family, the greater percentage of workers doing heavy manual labor, the colder climate, the less comfortable living conditions, and the relative scarcity of housing and durables on which to spend money.*

18. The Gomulka regime initially gave a high priority to raising food consumption of urban workers. In 1956, members of the prewar industrial workforce "had ample reason to believe that they were

* It should be noted that food consumption by manual workers and their families is close to the national average in Poland, but in West Germany is substantially below the national average. Even so, average consumption for all Poles is higher in calories and fats than for the West Germans, and animal protein is nearly seven-eighths of the West German level. It is only when quality, assortment, and processing are taken into account that the Polish diet can be seen to be markedly less desirable than the diet in West European countries. For example, in 1964, average Polish food consumption (excluding tobacco and beverages) valued in schillings was 83% of the [footnote continued bottom of p. 11].

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Table 2

Per Capita Food Consumption
in Middle Income Families
of Manual Workers in Poland and West Germany a/
1969

	Kilograms <u>b/</u>	
	<u>Poland</u>	<u>West Germany</u>
Flour	15.9	5.6
Bakery goods	109.4	51.5
Noodles	1.9	2.5
Rice, groats, oats	5.6	5.8
Potatoes	146.1	50.1
Vegetables and vegetable products	59.3	31.0
Fruit and fruit products	35.6	45.3
Meat and meat products	47.2	37.3
Fats (except butter)	13.9	8.9
Fish and fish products	6.7	3.5
Milk (liters)	106.6	71.6
Butter	6.7	5.4
Cream	6.3	6.5
Cheese	6.8	7.1
Eggs (units)	171	168
Sugar and confectionery	25.9	18.2

a. Based on sample surveys. The data for Poland are for families of manual workers in the middle income range, whose incomes are 1% higher than the average for all families of manual workers. The data for West Germany are for middle income families of manual and white collar workers, with incomes 8% above the average for manual workers. For both Poland and West Germany, statistics exclude restaurant meals, which amount to 6% of food expenditures in Poland, 9% in West Germany. Polish data include and West German data exclude consumption from private plots.

b. Unless otherwise indicated.

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were worse off than before the war."* Thereafter their living conditions improved markedly, especially in respect to food consumption, until the early 1960s. The growth of food consumption then tapered off, and since the mid-1960s there has been little net increase. As shown in Table 3, consumption by workers' families of some important items, including meat, fat (except butter), sugar, and vegetables actually dropped a little from 1965 to 1969. An earlier drop in consumption of cereal products continued, the normal accompaniment of a rising standard of living. The main offset was a fairly small increase in consumption of dairy products -- butter, cream, cheese, and eggs. Especially important was a drop in consumption of pork, a key item in traditional Polish diets. The additional poultry and fish supplied in place of pork are regarded as poor substitutes by Polish workers.

19. Little or no decline in food consumption took place in 1970, judging from retail sales data through September. Per capita sales of meat, butter, and potatoes declined, and there were a few significant increases, the most important being for fats (other than butter), fish, and some dairy products. In effect, changes in the pattern of consumption in 1970 continued those from 1966 to 1969.

20. A leveling off in supply -- not in demand -- explains the decline in consumption of meat, fats, sugar, and vegetables in workers' families. Agricultural output, which rose substantially in the late 1950s and again in 1965-66, leveled off thereafter

average Austrian level,

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In raw products, the value of average Polish consumption was even higher relative to the Austrian level; in processed foods, less than one-half -- just one instance of the difference in composition. The difference between average Polish and West German diets would be somewhat greater.

* Maurice Ernst, "Postwar Economic Growth in Eastern Europe (A Comparison with Western Europe)," New Directions in the Soviet Economy, Part IV, Washington, 1966, p. 888.

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Table 3

Average Per Capita Food Consumption in Poland in Families
of Manual Workers Outside Agriculture

	Kilograms ^{a/}				
	1965	1966	1967	1968	1969
Flour	18.3	17.3	16.7	16.4	16.1
Bakery goods	114.1	116.0	111.9	110.9	109.3
Noodles	1.9	1.7	1.9	1.8	1.8
Rice, groats, oats	5.7	5.9	6.3	5.7	5.7
Potatoes	137.2	145.5	141.2	138.5	141.7
Vegetables and vegetable products	57.7	58.7	60.8	56.0	56.5
Fruit and fruit products	25.5	38.0	34.0	37.3	34.0
Meat and meat products	48.2	47.1	44.5	43.4	44.3
Fat (excluding butter)	14.8	14.9	14.6	14.0	13.6
Fish and fish products	5.4	5.3	6.1	5.8	6.3
Milk (liters)	107.3	102.5	102.5	104.6	104.8
Butter	5.5	5.6	6.0	6.3	6.4
Cream	5.8	5.6	5.9	5.8	5.9
Cheese	6.3	5.9	6.5	6.4	6.7
Eggs (units)	138.9	148.9	125.5	158.9	163.5
Sugar and confectionery	29.7	31.0	25.4	25.9	25.6

a. Unless otherwise indicated.

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and dropped in 1969 and 1970. For meat the pattern is different in that production held up in 1969 -- on the basis of good inventories of feed -- and only began dropping for 1970.

21. The increase in supply in the late 1950s was aided by US deliveries of agricultural products on a very long-term interest-free credit (under Public Law 480, Title 4) from 1957 to 1964. With these deliveries, Poland was able to raise meat production fast enough to afford both an increase in meat exports -- an important source of hard currency -- and a rise in domestic consumption to an acceptable level. The US decision to stop deliveries at the end of 1964 put a squeeze on Polish consumption and exports that could have had serious immediate effects, had it not been for some Soviet help and a providential rise in domestic output in 1965-66.

22. Even with this help, Polish leaders were faced with some hard decisions on exports versus consumption after 1966, when output leveled off. Apparently they decided to hold both at about the same level. Total agricultural and food exports held fairly steady, although meat exports varied sharply -- they were cut in 1968, mainly as a result of a drop in domestic pork production, jumped forward in 1969, and declined again in 1970. Meanwhile, agricultural and food imports increased. Per capita consumption increased somewhat, but only because of a continued rise in peasant consumption, already much higher than urban consumption in most respects. The exceptions are meat and fish, of which peasants still eat somewhat less than workers, although the gap narrowed rapidly in the 1960s to less than 5%.

23. Unfortunately, while the quantities supplied remained almost stable, effective demand continued to rise. Nonagricultural employment went up by 3½ per year in 1966-69, partly because of substantial new additions to the labor force and continued migration from agriculture, but also because enterprises, eager to fulfill output plans, stepped up hiring of women. At the same time, average wages rose by more than 4% per year, and the wage bill was 36% greater in 1969 than in 1965. Most other incomes, including payments to peasants,

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rose less rapidly; even so, total income went up 33% over the four years.*

24. The rapid growth of incomes during 1966-69 was not by any means matched by price increases. As mentioned earlier, the regime raised retail prices of meat by 17% in 1967 mainly to compensate for a decline in supplies. Other significant retail price increases in the period for goods were for fish (13%) and tobacco (29%). Prices also went up for some products in the free market -- meat, eggs, and vegetables -- by 8%-9%. Prices of some services, heavily subsidized in Poland, were also raised, notably rent (a whopping 90% but on a small base) and public transport (16%). But overall the price rise was only about 8% for food, 3% for other goods, and 14% for services -- an increase of about 9% for consumption on the whole during the four years.

25. Polish consumers, to be sure, spent a substantial part of their increased purchasing power on clothes, durables, and services, including those for which prices had risen. In nominal prices, the total increase in nonfood purchases of goods was 34% in 1966-69, and expenditures for services were up by 49%. As a result, even though purchases of foods, beverages, and tobacco -- which represented some 40% of total purchases of goods by households** -- rose by only 21%,*** overall expenditures on goods and services rose by 30%. Thus the 32% increase in nominal incomes did not create significant excess purchasing power in the hands of workers. Additions to savings deposits and cash in circulation rose, but remained small relative to total incomes. These facts, reflected in Table 4, help further to explain why the planners, and the leaders themselves, who traditionally think mainly in terms of balances, were not greatly concerned about inflationary pressures, the less so because Polish

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* The share in consumption of goods is, of course, higher because food consumption in kind by peasants, soldiers, hospital patients, and the like is a substantial share of total consumption of goods.

** Deflated for a price increase of 8%, this represents a 12% real increase, or an 8% increase per capita. There was a real per capita increase of perhaps 21-22% in 1966 and a 14% increase per year, thereafter reflecting in part an increase in purchasing.

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Table 4

Money Incomes and Expenditures of Households in Poland

	Billion Zlotys	
	1965	1969
<u>Incomes</u>		
Wages a/	217.7	296.5
Other payments to workers and employees	30.9	41.8
Net incomes of independent artisans	4.3	5.1
Net peasant incomes (excluding investment)	48.5	49.5
Other net earnings of self-employed	8.8	12.4
Rental income	1.3	2.6
Welfare payments and scholarships	19.0	31.1
Net consumer credits	0.9	0
Housing allowances	0.6	0.2
Interest on savings deposits	1.0	2.3
Total incomes	272.0	447.2
<u>Expenditures</u>		
Retail sales		
Socialist trade b/		
Food b/	100.3	121.5
Other	141.0	189.6
Private trade	4.3	5.7
Free market sales c/	17.6	21.1
Total goods	263.2	337.9
Electric power and gas	3.2	4.2
Transport and communications d/	9.8	14.7
Housing maintenance	16.2	21.9
Money rent	4.3	8.6
Other goods and services	5.0	8.0
Total services	38.5	57.4

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SECRET**Table 4****Money incomes and Expenditures of Households in Poland
(Continued)**

	Billion Zlotys	
	1965	1962
Wage taxes	15.1	17.2
Net insurance	4.6	2.6
Other taxes and fees	1.6	2.6
Additions to savings deposits	10.1	15.9
Addition to cash on hand	2.7	4.1
Total expenditures	228.8	427.7

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savings deposits and cash in the hand of the population had been and remained small relative to incomes, much smaller than in most other East European countries.

26. To be sure, Polish officials recognized -- as did Piesarski in the article quoted above -- that many workers would buy more meat and other foods -- and vodka -- with their higher pay if only the products were on the shelves. In 1966-69 the share of food products in purchases of all goods declined, and the behavior of the free peasant market suggests that workers were not eager to buy a great deal more of the foods normally available. Quantities sold on the free market increased at about the same rate as in state outlets, and prices generally remained fairly close to state retail prices. But if a wider range of goods, food and nonfood, were available -- on the food side especially fresh fruit and sausage and other processed meat -- Poles would probably spend an increasing share of their incomes on food, at least for a time.

27. But pressure on meat supplies becomes a serious problem when meat procurement falls off. At once anxiety rises among customers. Indeed, Poles are sufficiently aware of farming matters to anticipate trouble. A majority of urban workers still have ties in the village, and many still do a little farming on the side. And so, in August 1970 when meat procurement dropped, reactions followed quickly. The first reports said that housewives in Katowice, the big industrial center, had broken windows in butcher shops to protest shortages. Actually judging from retail trade data through October 1970, precautionary buying by farm-wise customers was the immediate cause rather than an actual dropoff in deliveries to retail outlets. Selected retail trade statistics for the first nine months of 1969 and 1970 are given in Table 5. But whatever the original causes, shortages spread to major cities throughout the country, except apparently in Warsaw. In October and November, miners reportedly refused to go to work on occasion in Wroblin and the Katowice area. Instances were reported of damage to stores and of physical violence among shoppers. Grumbling and small protests mounted with the approach of the Christmas season, when all Poles

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Table 5

Retail Trade in Foodstuffs in Poland
(First 9 Months of 1969 and 1970)

	<u>Thousand Tons ^{a/}</u>		<u>Per Capita Supply (1970 as a Percent of 1969)</u>
	<u>1969</u>	<u>1970</u>	
Flour	268	275	102
Bakery goods	2,094	2,141	102
Noodles	36	35	97
Cereals, rice, and oats	176	178	101
Potatoes	400	376	93
Fresh vegetables	303	323	106
Meat and meat products	283	230	98
Fat (excluding butter)	97	103	106
Fish	119	130	109
Milk (million liters)	829	870	104
Butter	81	81	99
Eggs (million units)	744	786	104
Sugar and confec- tionery	739	767	103
Fresh domestic fruit	115	112	97

a. Unless otherwise indicated.

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lay in extra food to celebrate, and rumors amplified the effect.

28. At this point the regime knew that Poland was faced with the certainty of some decline in meat production in 1970, which would continue at least through mid-1971. A livestock census in September confirmed a decline in numbers of hogs, including sows. Higher prices and feed shortages had led farmers to kill off some breeding stock and shoats as well as yearling hogs. It would be necessary to cut back procurement if herds were not to be further reduced. Moreover, estimates of the harvest, already indicating a second year of poor crops, had to be revised downward in October. Shortages of feed could well prolong the meat shortage and might also affect milk, egg, and poultry production. In early December the USSR agreed to send an additional million tons of grain from the bumper Soviet crop to ease the grain shortage, but the impending pork shortage remained.

29. The leadership had to act quickly, either to set up meat rationing, order substantial amounts of pork on the world market -- for hard currency -- or raise prices very substantially, for the second time in three years. How the debate went is unknown, but the conclusion clearly was to raise prices. A determining factor could well have been the useful effect on the new five-year plan for 1971-75. The argument made earlier by various economic officials, including Piaszki, as quoted above, was revived: despite the continued desire of workers for more and more meat, it would be desirable to shift the structure both within food consumption -- by increasing the share of fish, milk, eggs, and fruit and vegetables -- and between food and nonfood consumption. As one writer put the case in November 1970: Poland already has a high consumption of animal protein and the demand goes on rising, but "such a structure of demand is not always in line with the principles of a rational diet and to no less extent with the planned spending of earnings."* If a substantial -- very unpopular -- price rise for meat was necessary, why not carry out the long-postponed program for shifting effective demand by restructuring retail prices?

* Z. Jagielski, Trybuna Ludu, 17 November 1970.

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30. That appears to be the background of the December price changes. Obviously at the price of importing an extra 50,000 tons or so of meat -- costing some \$40 million -- the regime could have put off a decision until the new year. A prudent leader like Gomulka would normally have taken some such precaution. Indeed he probably would have insisted on stringing out the price changes, as had been done before. Perhaps too great a preoccupation with international problems -- especially the treaty with West Germany -- led him to rely too much on economic advisers who had long wanted to push through the measure.

The Impact of Wage and Employment Reforms

31. The new incentive system for shipbuilders was part of a new government wage and employment policy. In the fall of 1969 the regime began a serious attempt to halt the unplanned rises in employment and average wages that had been occurring since about 1963. Financial and administrative action was threatened against managers who exceeded planned employment and wage levels, and employment limits were set for enterprise employment at the end of 1969. The effects on 1969 nonagricultural employment were slight. The annual increase was 3.4%, or only slightly less than the average in 1966-68. The new measures did produce some effect in 1970; nonagricultural employment rose by only 1.7% in January-September compared with the same period of 1969. The effect on wages outside agriculture also has been significant; the average wage has gone up 2.9% as against an average of 4.2% in 1966-69. One factor helping to keep down wages has been a reduction in overtime work, another point on which the regime has been harping. In industry, manhours worked actually declined slightly in the first half year in spite of a 1.6% increase in employment.

32. By now the effect of these measures probably has been felt in most enterprises and in many families. The Poles have taken for granted the availability of jobs for any peasant, anyone leaving school, or any housewife. The tightening up on employment has given notice that jobs can no longer be taken quite so much for granted,

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although the regime must still provide a good many new jobs for new entrants in the labor force. Moreover, take-home pay could suffer from the new incomes policy. Overtime pay has already suffered, and the Christmas bonuses may have proved to be smaller than usual. And pressure to improve the proverbial slack labor discipline has probably begun, although there is not much information on this point.

33. All these factors probably figure in the sharp reaction of the shipyard workers to the price rises and the new wage regulations promulgated in December. If the new leaders of Poland persist in these reforms, they may be faced with new unrest.

Economic Changes Under the Gierek Regime

34. The new Polish leadership has adopted a position toward the workers at once firm and conciliatory. The new food prices adopted in December are to stand unchanged for at least two years, except for seasonal foods. At the same time, Gierek has undertaken to correct the worst inequities -- mainly, it would appear, to help large families with small incomes -- and to review existing economic policies, which he characterized as in part poorly thought out. He promised to be realistic and to "consult with the workers."

35. The new leadership can change the style of Polish economic policy far more readily than the substance. Gierek can see to it that food supplies are maintained through the winter, by spending some hard currency if need be and by careful allocation and perhaps informal rationing. He may get a little Soviet help, but beyond doing that and trying to avoid future confrontations with the workers, Gierek cannot do much to improve the lot of Polish workers. He is expected to go on trying to hold down increases in employment and wages and may succeed in avoiding a sharp rise in inflationary pressures. He intends to play a more active and intelligent role in directing the economy than Gomulka, who meddled in, but did not understand, economic principles. As an efficient administrator, Gierek will doubtless do more to modernize Polish planning and management. He

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is likely to continue Gomulka's policy of seeking closer economic cooperation in both East and West, with the aim of upgrading Polish technology. Such an approach may well contribute something to the stability and confidence of the Polish regime in the coming years, but is not likely to have much measurable effect on Polish economic growth and efficiency.

Conclusions

36. The Gierek regime inherits an economy that has provided plenty to eat for all but the poorest families, although in other respects -- particularly housing -- it has provided little beyond the bare necessities of life in a northern industrial country. Jobs have been easy to get, and wages have gone up almost automatically. Although food costs accounted for only about one-third of urban incomes in 1969 and the price changes involved an average loss of net income of less than 1% in the cost of living, workers are sensitive to government actions (such as substantial price increases) which seem to threaten a lowering of the quality of the diet and perhaps its quantity. It is significant that the December outbreaks occurred among the shipyard workers, whose wages are well above the national average. To these members of the urban worker elite, the social contract implied at least the per capita maintenance, if not increase, in food supplies, particularly meat, potatoes, and vodka. The impending real decline in the quality of the diet lay behind the December riots.

37. The Gierek government has announced that the new prices introduced in December will not be rescinded but will be frozen for two years. The regime doubtless will try to assure adequate food supplies for everyone this winter, if necessary by informal rationing and some imports.

38. In the longer run, Gierek faces the problem of how to get the conservative workers and managers -- and their no less conservative and stubborn brothers and cousins on the farms -- to agree to changes in the rules of the game. This means, in part, a willingness to accept more

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nearly rational prices for consumer goods and services and methods of compensation that place more emphasis on productivity increases and reductions in cost. In addition, Gierek will try to play a more active public role as a leader than did his predecessor, responding to the national mood and communicating policy more effectively.